

Individual Market –PPO Product Rate Increases

The average proposed rate increase takes into consideration changes in plan benefits based on state requirements and new Actuarial Value Calculator testing. Lower Federal Transitional Reinsurance program contributions and higher reinsurance recovery thresholds result in higher reinsurance costs and factor into the rate increase as well. Changes in rates also take into consideration changes in the anticipated differences in the demographic and geographic mix of the plan population as compared to that of 2014 and in the changes in plan mix between the 2014 experience by plan level and assessment of the anticipated demographic mix of the overall market and that of the individual health plan of KYHC. The main drivers of increases in administrative costs include commission expenses, commercial reinsurance costs, reductions in federal reinsurance recoveries.

The rate increase will impact approximately 53,000 health plan members across six distinct plan products with increases by plan product varying from a low of 18.9% for the MSP Gold plan to a high of 30.9% for the Bronze plan. Rates by plan vary due to a combination of factors including shifts in benefit relativities and non-benefit expense allocation. The rate increase will positively impact the plan's experience with the historical experience reflecting a ratio of earned premium of \$173.2 million to total paid and incurred claims of \$349.4 million for 2014.